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18 February 1983
OEXA 83-0360/2

MEMORANDUM FOR THE RECORD

SUBJECT: Briefing of Senate Energy and Natural Resources
Committee, 18 February 1983

1. On 18 February 1983, Henry Rowen, Chairman, National Intelligence Council accompanied by [redacted], Office of Global Issues, and [redacted] Office of Near East and South Asian Affairs, briefed the Senate Energy and Natural Resources Committee in a closed session on the world energy situation. Representatives from the Departments of Energy, State and Treasury also presented information. A transcript was taken of the proceedings by Alderson Reporting Firm. The briefing, held in Room S-407, The Capitol began at 0900 and ended at 1145. (U)

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2. Senator James McClure (R., IA), Chairman of the Committee presided. In addition, Senators John Warner (R., VA), Chic Hecht (R., NV), Pete Domenici (R., NM), J. Bennett Johnston (D., LA) and Bill Bradley (D., NJ) attended for all or a part of the session. The Committee staff present were: Charles Trabandt, Mike Harvey, James Bruce, Elizabeth Moler, Carol Garnett, Ben Cooper, Paul Gilman, Richard Grundy and Howard Useem. Several legislative aides attended also. Tom Walsh for Senator Dale Bumpers (D., AR), Bill Taylor for Senator Bill Bradley (D., NJ), Jack Gleason for Senator Lowell Weicker (D., CT), David Garman for Senator Frank Murkowski (R., AK) and Daryl Owen for Senator J. Bennett Johnston (D., LA). (U)

3. George Bradley, Deputy Assistant Secretary for International Affairs, Department of Energy, was the lead-off witness. Mr. Bradley indicated that production in the OPEC countries was down and that prices for oil are falling. He said that he was uncertain whether Saudi Arabia will cut its prices unilaterally. In sum, his department finds that the indicators for a price cut are ambiguous. (U)

4. Mr. Rowen summarized his prepared statement. His view was that the next few weeks will be critical but that the problem of reduced oil prices goes beyond the immediate outlook. He outlined the reduced U.S. demand for oil from OPEC countries. He also said that because there are numerous complicated factors involved it is difficult to predict how far prices might fall. One critical factor is the war between Iran and Iraq. Looking beyond 1983, Mr Rowen saw only moderate growth in consumption against a backdrop of falling prices. The uncertainty about lower prices makes a

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strong case for a slow recovery. Next, he touched on a variety of oil disruption risk scenarios.

After Mr. Rowen's statement, Chairman McClure asked for our assessment of the Iran-Iraq war. [] NESA, began by telling the members that there was a temporary lull in the fighting while both sides regroup. He described the latest engagement giving the number of troops, armor, casualties and prisoners. He said it was a major engagement and had been a total failure for Iran. The Iranians especially Khomeni still have a political commitment to the war and to the overthrow of Saddam Hussein but another loss would deal a severe blow to Iran's military strength. The Iraqis have a 2 to 1 superiority in armor while their infantry forces remained about equal. He gave the assessment that the war could develop into a protracted border struggle. There was considerable discussion on the vulnerability of the Kharg Island oil facilities and the ability of the Iraqis to inflict damage on its essential components. He indicated that the Iraqis have the capability to hit the facilities but that so far there appears to be a political policy against such tactics. [] responded to several questions of the Members during his presentation. (S)

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5. Allan Wendt, Deputy Assistant Secretary for International Energy Policy at State was the next witness. He opened his statement with the comment that the administration welcomes the decline in oil prices. He gave a rundown of the impact on several oil producing countries. He also outlined the possible impact on U.S. energy security. James Plocke, Deputy Assistant Secretary for Economic Affairs, Bureau of Near Eastern and South Asian Affairs, State, spoke next on the reduced global demand for middle east oil. He pointed out that the U.S. had diversified imports. (U)

6. Charles Schotta, Deputy Assistant Secretary for Arabian Peninsula Affairs, Department of the Treasury, was the final witness. He presented a possible scenario that examined the impact of a drop in oil price from \$40 to \$20 per barrel. He gave an example of the worst case impact on the U.S. and on several oil producing nations. In conclusion, he added that it was the Treasury view that a decline in oil prices would be welcome.

7. After the presentation, there was a lively question and answer period. One of the topics discussed was the total worldwide capacity available now and for the next decade. Initially, there seemed to be some confusion on this point

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but after some dialog there was general agreement on the figures. As a follow-up item, Chairman McClure requested that the Agency prepare a report on total worldwide production capacity, breaking it down on a country by country basis. At the conclusion of the briefing, the Chairman asked for a run down on what Libya was doing. Mr. Rowen provided a brief report. (S)



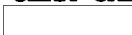
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Chief, Senate Liaison

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